# People Infrastructure Ltd

**ACN 615 173 076**

# and its controlled entities

**Financial Report**

**For the 9 months ended 30 June 2017**

# Corporate Information

**AUSTRALIAN BUSINESS NUMBER**
ABN 39 615 173 076

**DIRECTORS**
Declan Sherman
Thomas Reardan
Timothy Sayer

**COMPANY SECRETARY**
Declan Sherman

**REGISTERED OFFICE AND PRINCIPAL BUSINESS OFFICE**
90 Petrie Terrace
Brisbane QLD 4000

**COUNTRY OF INCORPORATION**
Australia

**SOLICITORS**
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## Directors' Report

## For the period ended 30 June 2017

The Directors of People Infrastructure Ltd present their report together with the financial statements of the consolidated entity, being People Infrastructure Ltd ('the Company') and its controlled entities ('the Group') for the period ended 30 June 2017.

**Directors and company secretary details**

The following persons were Directors of People Infrastructure Ltd during the financial period and up to the date of this report, unless otherwise stated:

**Declan Sherman** Appointed 5 October 2016

Director and Company Secretary

Mr Sherman commenced with People Infrastructure in 2015 and has been Managing Director of the Company since 2016. Mr Sherman has a distinguished history in financial services and operational consulting. In 2010, Mr Sherman founded Everlight Capital in New York, a leading boutique consulting and investment firm operating throughout the Americas. Between 1999 and 2010, Mr Sherman worked in the private equity and investment banking divisions of Macquarie Group in both Sydney and in New York.

**Thomas Reardon** Appointed 9 January 2017

Director

Mr Reardon is an Executive Director of People Infrastructure and is CEO of AWX. Mr Reardon commenced with AWX in 2003, became a director in 2006 and proceeded to significantly grow the business into one of the leading labour hire and workforce management groups in Australia. He is recognised throughout Australia as a leader in the workforce management sector. Mr Reardon has been responsible for major growth and also launched other workforce brands including Mobilise and Timberwolf, which have grown to be successful labour hire brands of People Infrastructure.

**Timothy Sayer** Appointed 15 July 2017

Non-executive Director

*Qualifications:* B Laws, B Arts, Master of Laws (Corporate Law), Advanced Management Program.

Mr Sayer is a lawyer for Talbot Sayer specialising in mergers and acquisitions, capital raising, joint ventures, shareholding arrangements, corporate reorganisations and corporate governance.

**Directors meetings**

The number of meetings of Directors held during the period and the number of meetings attended by each Director was as follows:

| | Board | |
|---|---|---|
| | **Number of meetings held while in office** | **Meetings attended** |
| Declan Sherman | 10 | 10 |
| Thomas Reardon | 10 | 10 |
| Timothy Sayer | n/a | n/a |

No board committees have been formed during the period.

## Directors' Report (cont.)

## For the period ended 30 June 2017

**Principal activities**

The principal activities of the Group during the financial period were the provision of contracted staffing and human resources (HR) outsourcing services. Services provided by People Infrastructure include recruiting, on-boarding, rostering, timesheet management, payroll, and workplace health and safety management.

The entities which perform these activities were acquired during the reporting period. These activities commenced at the time of acquiring the entities. Since the acquisitions there has been no significant changes in the nature of these activities during the period.

**Review of operations and financial results**

People Infrastructure Ltd was incorporated on the 5 October 2016. During the period two acquisitions occurred. These were acquisition of the shares of AWX Pty Ltd in October 2016 and Edmen Holdings Pty Ltd in April 2017. The results presented include the operations of these two groups from the dates of acquisitions. The funding of the acquisitions was via a number of debt facilities which are detailed in Note 12.

The revenue of the Group for the financial period was $108,227,299. This reflected continued demand for staffing services in the sectors in which the group operates, including disability care, childcare, infrastructure, mining, agriculture and hospitality. The loss before income tax expense of the group for the financial period was $854,176. Included in this result is a non-cash expense of $4,102,384 which is the fair value of the convertible notes issued during the period. The loss of the group for the financial period after providing for income tax amounted to $1,965,250. Both businesses that are consolidated under AWX Pty Ltd and Edmen Holdings Pty Ltd contributed significant profit to the group.

Apart from normal business operations, the group commenced trading in New Zealand in March 2017 under the newly acquired entity, The Recruitment Company.

**Significant changes in state of affairs**

On 5 October 2016, the company was incorporated and shares were issued. Therefore, this is the first financial report for the group.

On 18 October 2016, the group acquired 100% of the shares in AWX Pty Ltd and on the 5 April 2017 100% of the shares in Edmen Holdings Pty Ltd were acquired.

These acquisitions were funded via the issue of $10.9 million in convertible notes, $7.2 million in shareholder loans and $22.8 million in commercial bills.

No other significant changes in the group's state of affairs occurred during the financial period.

**Dividends paid or recommended**

No dividends were declared or paid during or subsequent to the end of the financial period.

**Unissued Shares under options**

Unissued ordinary shares of People Infrastructure Ltd under option at the date of this report are:

| Date options granted | Expiry date | Exercise price of shares | Number under option |
|---|---|---|---|
| 17 January 2017 | 14 November 2020 | $4.16 | 108,000 |
| 17 January 2017 | 14 November 2021 | $4.16 | 108,000 |
| **Total under option** | | | **216,000** |

The options have vesting conditions attached to them and expire 30 days after the exercise date. These options were issued during the period to key management personnel as part of the People Infrastructure Ltd's Employee Share Option Scheme.

## Directors' Report (cont.)

## For the period ended 30 June 2017

**Likely developments**

The group is in the process of preparing for an Initial Public Offering of shares which it expects to complete in 2017. The proceeds of this IPO will be used to repay some of the debt facilities as well as convert the Convertible Notes into shares.

**Environmental legislation**

The group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory of Australia.

**Events arising since the end of the reporting period**

On the 15 July 2017, the company changed from a proprietary limited company to an unlisted public company.

In August 2017, 1,900,000 of the convertible notes were renegotiated to extend the repayment to October 2018. Given these renegotiations have occurred subsequent to the end of the reporting period they have remained as a current liability as at 30 June 2017.

The group is working towards listing on the ASX in the coming months and plans to do so prior to December 2017.

No other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the group, the results of those operations, or the state of affairs of the group in future financial periods.

**Indemnities given to, and Insurance premiums paid for, auditors and officers Insurance of officers**

During the period, the group paid a premium to insure officers of the group. The officers of the group covered by the insurance policy include all Directors.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the group.

Details of the amount of the premium paid in respect of insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

The group has not otherwise, during or since the end of the financial period, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer of the group against a liability incurred as such by an officer.

**Proceedings on behalf of the group**

No person has applied for leave of Court to bring proceedings on behalf of the group or intervene in any proceedings to which the group is a party for the purpose of taking responsibility on behalf of the group for all or any part of those proceedings.

The group was not a party to any such proceedings during the period.

## Directors' Report (cont.)

## For the period ended 30 June 2017

### Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6 and forms part of this Directors' Report.

Signed in accordance with the resolution of the Board of Directors.

**Declan Sherman**

Director

Dated this 4th day of October 2017

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**DECLARATION OF INDEPENDENCE BY T J KENDALL TO THE DIRECTORS OF PEOPLE INFRASTRUCTURE LTD**

As lead auditor of People Infrastructure Ltd for the 9-month period ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of People Infrastructure Ltd and the entities it controlled during the period.

**T J Kendall**
Director

**BDO Audit Pty Ltd**

Brisbane, 4 October 2017

## Consolidated Statement of Profit or Loss and Other Comprehensive Income
## For the period ended 30 June 2017

| | Note | 9 months ended 30 June 2017 $ |
|---|---|---|
| Revenue | 1 | 108,227,299 |
| Other income | | 18,104 |
| Employee benefits expense | | (98,555,780) |
| Occupancy expenses | | (796,752) |
| Depreciation and amortisation expense | 2 | (864,061) |
| Finance costs | | (1,022,799) |
| Other expenses | | (7,860,187) |
| Loss before income tax expense | | (854,176) |
| Income tax expense | 3 | (1,111,074) |
| **Loss for the period** | | **(1,965,250)** |
| Other comprehensive income for the period, net of income tax | | (3,061) |
| **Total comprehensive loss for the period** | | **(1,968,311)** |
| | | |
| **Loss for the period is attributable to:** | | |
| Owners of People Infrastructure Ltd | | **(1,965,250)** |
| | | |
| **Total comprehensive loss for the period is attributable to:** | | |
| Owners of People Infrastructure Ltd | | **(1,968,311)** |

*The above Consolidated Statement of Profit or Loss and other Comprehensive Income should be read in conjunction with the accompanying notes.*

## Consolidated Statement of Financial Position
## As at 30 June 2017

| | Note | 2017 $ |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | 4 | 4,852,185 |
| Trade and other receivables | 8 | 24,492,243 |
| Other current assets | | 548,476 |
| **TOTAL CURRENT ASSETS** | | **29,892,904** |
| **NON-CURRENT ASSETS** | | |
| Property, plant and equipment | 9 | 1,863,139 |
| Intangible assets | 10 | 34,777,003 |
| **TOTAL NON-CURRENT ASSETS** | | **36,640,142** |
| **TOTAL ASSETS** | | **66,533,046** |
| **CURRENT LIABILITIES** | | |
| Trade and other payables | 11 | 13,040,311 |
| Financial liabilities | 12 | 25,509,361 |
| Current tax liabilities | | 943,451 |
| Employee benefits | 13 | 1,376,189 |
| **TOTAL CURRENT LIABILITIES** | | **40,869,312** |
| **NON-CURRENT LIABILITIES** | | |
| Financial liabilities | 12 | 27,156,266 |
| Deferred tax liabilities | 3 | 250,256 |
| Employee benefits | 13 | 224,558 |
| **TOTAL NON-CURRENT LIABILITIES** | | **27,631,080** |
| **TOTAL LIABILITIES** | | **68,500,392** |
| **NET ASSETS** | | **(1,967,346)** |
| **EQUITY** | | |
| Share capital | 14 | 10 |
| Accumulated losses | | (1,965,250) |
| Reserves | | (2,106) |
| **TOTAL EQUITY** | | **(1,967,346)** |

*The above Consolidated statement of financial position*
*should be read in conjunction with the accompanying notes*

## Consolidated Statement of Cash Flows
## For the period ended 30 June 2017

| | Note | 9 months ended 30 June 2017 $ |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers | | 119,592,630 |
| Payments to suppliers and employees | | (116,199,439) |
| Interest received | | 3,996 |
| Finance costs paid | | (1,022,799) |
| Income taxes paid | | (875,555) |
| **Net cash provided by operating activities** | **5 a** | **1,498,833** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | | (644,329) |
| Purchase of intangible assets | | (1,188) |
| Purchase of subsidiaries (net of cash acquired) | **6** | (43,758,658) |
| **Net cash (used in)/provided by investing activities** | | **(44,404,175)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from borrowings | | 48,130,998 |
| Repayments of borrowings | | (261,469) |
| Bank guarantee | | (109,670) |
| **Net cash used in financing activities** | | **47,759,859** |
| **Net change in cash and cash equivalents held** | | **4,854,517** |
| Effects of foreign exchange on Cash | | (2,332) |
| **Cash and cash equivalents at beginning of financial period** | | **-** |
| **Cash and cash equivalents at end of financial period** | **4** | **4,852,185** |

*The above Consolidated Statement of Cash Flows*
*should be read in conjunction with the accompanying notes*

## Consolidated Statement of Changes in Equity
## For the period ended 30 June 2017

| | Share capital $ | Accumulated Losses $ | Shared option reserve | Foreign currency reserve | Total $ |
|---|---|---|---|---|---|
| Balance at 5 October 2016 | - | - | - | - | - |
| Loss for the period | - | (1,965,250) | - | - | (1,965,250) |
| Other comprehensive loss for the period | - | - | - | (3,061) | (3,061) |
| **Total comprehensive loss for the period** | - | (1,965,250) | - | (3,061) | (1,968,311) |
| **Transactions with owners, in their capacity as owners** | | | | | |
| Issue of share capital | 10 | - | - | - | 10 |
| Employee share-based payment options | - | - | 955 | - | 955 |
| **Sub-total** | 10 | - | 955 | - | 965 |
| **Balance at 30 June 2017** | **10** | **(1,965,250)** | **955** | **(3,061)** | **(1,967,346)** |

*The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

## Notes to the Financial Statements For the period ended 30 June 2017

### *About this report*

The financial statements of People Infrastructure Ltd for the 9 months ended 30 June 2017 covers the Consolidated Entity consisting of People Infrastructure Ltd and its subsidiaries ("Group") as required by the Corporations Act 2001.

The financial statements are presented in the Australian currency.

People Infrastructure Ltd is a Public Company, incorporated and domiciled in Australia. The company was incorporated on the 5 October 2016 and therefore these financials represent the 9-month period from the 5 October 2016 to the 30 June 2017. The company changed from a proprietary limited company to an unlisted public company subsequent to the end of the reporting period on 15 July 2017.

The principal activities of the group during the financial period were the provision of contracted staffing and human resources (HR) outsourcing services. Services provided by People Infrastructure include recruiting, on-boarding, rostering, timesheet management, payroll, and workplace health and safety management.

The entities which perform these activities were acquired during the reporting period. These activities commenced at the time of acquiring the entities. Since the acquisitions there has been no significant changes in the nature of these activities during the period.

The consolidated general purpose financial report of the group for the 9 months ended 30 June 2017 was authorised for issue in accordance with a resolution of the directors on 4 October 2017. The Directors have the power to amend and reissue the financial report. The financial report is a general purpose financial report which:

- has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board;
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the group and effective for reporting periods beginning on or after 1 July 2016. Refer to note 26 for further details; and
- does not early adopt any Australian Accounting Standards and Interpretations that have been issued or amended but are not yet effective, except for those described in Note 26. Refer to Note 26 for details on standards not early-adopted.

The financial statements have been prepared on a historical cost basis, except for convertible notes which has been measured at fair value. The entity is a for-profit entity for the purposes of Australian Accounting Standards.

### *Key judgements and estimates*

In the process of applying the group's accounting policies, management has made a number of judgements and applied estimates of future events. Judgements and estimates which are material to the financial report are found in the following notes:

| | |
|---|---|
| Going Concern | Page 12 |
| Note 3: Income taxes | Page 16 |
| Note 6: Acquisition of subsidiaries | Page 21 |
| Note 9: Property, plant and equipment | Page 24 |
| Note 12: Financial liabilities | Page 27 |
| Note 15: Share based payments | Page 31 |

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### *Key judgements and estimates (cont.)*

#### Going concern

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. The ability of the group to continue to adopt the going concern assumption will depend upon a number of factors including the continued funding of the group facilities and People Infrastructure Ltd listing on the Australian Securities Exchange (ASX).

For the 9 months ended 30 June 2017 a loss after income tax of $1,965,250 resulted. This includes a fair value adjustment on the convertible notes of $4,102,384. Cash inflows from operating activities were $1,498,833. A current asset deficiency of $10,976,408 existed at 30 June 2017. This current asset deficiency is largely due to an issue of Convertible Notes for $11,020,000 that occurred in April 2017. The terms of these Convertible Notes provide for conversion into equity in the event of an IPO or trade sale of the business which is expected to occur prior to 30 June 2018.

On 16 August 2017, the convertible note holders of 1,900,000 notes have agreed to an extension to 31 October 2018 as disclosed in Note 19.

### *Basis of consolidation*

Subsidiaries are all those entities (including special purpose entities) over which the Company has control. The group controls an entity when the group is exposed, or has the rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

All intercompany balances and transactions, including unrealised profits arising from intragroup transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.

### *Foreign currency translation*

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

In the group's financial statements, all assets, liabilities and transactions of group entities with a function currency other than the Australian Dollars ($AUD) are translated into $AUD upon consolidation. The functional currency of the entities in the group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into $AUD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into $AUD at the closing rate. Income and expenses have been translated into $AUD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal.

### *Other accounting policies*

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### *The notes to the financial statements*

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the group. Information is considered relevant and material if for example:

- the amount in question is significant because of its size or nature;
- it is important for understanding the results of the group;
- it helps to explain the impact of significant changes in the group's business for example, acquisitions and impairment write-downs; or
- it is related to an aspect of the group's operations that is important to its future performance.

### Note 1: Revenue and other revenue

| | **9 months ended 30 June 2017 $** |
|---|---|
| **Sales revenue** | |
| Contract hire revenue | 105,720,915 |
| Facilities maintenance revenue | 1,937,415 |
| Recruitment revenue | 167,986 |
| Permanent placements | 46,864 |
| Roster management | 22,000 |
| Other revenue | 98,168 |
| **Total sales revenue** | **107,993,348** |
| | |
| **Other revenue** | |
| Government subsidies | 224,861 |
| Consultancy | 5,095 |
| Interest revenue – third parties | 3,996 |
| **Total other revenue** | **233,952** |
| | |
| **Total revenue and other revenue** | **108,227,299** |

### *Recognition and measurement*

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and rebates allowed.  Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements.  The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from contract hire, recruitment, and consultancy services is recognised in the accounting period in which the services are rendered.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

All revenue is stated net of the amount of Goods and Services Tax (GST).

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 2: Expenses

| | 9 months ended 30 June 2017 $ |
|---|---|
| **Employee benefits expense** | |
| Defined contribution superannuation expense | 6,906,370 |
| Share based payments expense | 955 |
| | |
| **Depreciation and amortisation expense** | |
| Depreciation expense - plant and equipment | 376,437 |
| Amortisation expense - intangibles | 487,624 |
| | **864,061** |
| | |
| **Other expenses** | |
| Fair value of convertible notes | 4,102,384 |
| Impairment expense - receivables | 487,325 |
| Minimum lease payments made under operating leases | 456,957 |
| Net loss on disposal of property, plant and equipment | 149,746 |

#### *Recognition and measurement*

**Post-employment benefits plans**

The group provides post-employment benefits through defined contribution plans.

*Defined contribution plans*

The group pays fixed contributions into independent entities in relation to several state plans and insurance for individual employees. The group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that relevant employee services are received.

### Note 3: Income taxes

| | 9 months ended 30 June 2017 $ |
|---|---|
| **(a) The components of income tax expense comprise:** | |
| Current tax | 1,110,428 |
| Deferred tax | 646 |
| | **1,111,074** |
| | |
| **(b) Reconciliation prima facie income tax on the loss is reconciled to the income tax expense as follows:** | |
| Prima facie tax expense on loss before income tax at 30% | (256,253) |
| | |
| Add tax effect of: | |
| - non-deductible entertainment | 61,275 |
| - non-deductible fair value movement in convertible notes | 1,230,715 |
| - other non-deductible expenses | 75,337 |
| | |
| **Income tax expense attributable to the group** | **1,111,074** |
| | |
| The applicable weighted average effective tax rates are: | **(130.08)%** |

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 3: Income taxes (cont.)

| | 9 months ended 30 June 2017 $ |
|---|---|
| **(c) Franking Account** | |
| The balance of the franking account at year end adjusted for franking credits or debits arising from payment of the provision for income tax or receipt of dividends receivable at the end of the reporting date based on a tax rate of 30% | **1,110,429** |

**(d) Deferred taxes**

| | Opening Balance | Acquired through business combinations | Recognised in Profit or loss | Closing Balance | Deferred Tax Asset | Deferred Tax liability |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Provision for doubtful debts | - | 448,644 | (382,589) | 66,055 | 66,055 | - |
| Provision for long service leave | - | 137,078 | 5,152 | 142,230 | 142,230 | - |
| Provision for annual leave | - | 276,892 | 47,521 | 324,413 | 324,413 | - |
| Accrued expenses | - | 656,888 | 300,402 | 957,290 | 957,290 | - |
| Blackhole expenses | - | - | 43,637 | 43,637 | 43,637 | - |
| Accrued income | - | - | (285,923) | (285,923) | - | (285,923) |
| Prepayments | - | (129,141) | 129,141 | - | - | - |
| Customer relationships | - | (1,633,151) | 139,915 | (1,493,236) | - | (1,493,236) |
| Workers compensation receivable | - | (6,820) | 2,098 | (4,722) | - | (4,722) |
| **TOTAL** | **-** | **(249,610)** | **(646)** | **(250,256)** | **1,533,625** | **1,783,881** |

*Recognition and measurement*

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income for the current period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the period as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss or arising from a business combination.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities ate ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 3: Income taxes (cont.)

#### *Recognition and measurement (cont.)*

No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled

People Infrastructure Ltd and its wholly-owned subsidiaries have implemented the tax consolidation legislation for the whole of the financial period. People Infrastructure Ltd is the head entity in the tax consolidated group. These entities are taxed as a single entity. The stand-alone taxpayer/separate taxpayer within a group approach has been used to allocate current income tax expense and deferred tax expense to wholly-owned subsidiaries that form part of the tax consolidated group. People Infrastructure Ltd has assumed all the current tax liabilities and the deferred tax assets arising from unused tax losses for the tax consolidated group via intercompany receivables and payables because a tax funding arrangement has been in place for the whole financial period. The amounts receivable/payable under tax funding arrangements is due upon notification by the head entity, which is issued soon after the end of each financial year. Interim funding notices may also be issued by the head entity to its wholly-owned subsidiaries in order for the head entity to be able to pay tax instalments. These amounts are recognised as current intercompany receivables or payables.

The group notified the ATO that it had formed an income tax consolidated group to apply from 6 October 2016.

#### *Key judgements*

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the group's future taxable income against which the deferred tax assets can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 4: Cash and cash equivalents

| | 2017<br>$ |
|---|---|
| Cash on hand | **462** |
| Cash at bank | **4,851,723** |
| | **4,852,185** |

Cash at bank bear floating interest rates between 1.50% and 1.74%.

**Reconciliation of Cash**

The above figures are reconciled to the cash at the end of the financial period as shown in the consolidated statement of cashflows as follows:

| | |
|---|---|
| Cash at bank and in hand | **4,852,185** |

### *Recognition and measurement*

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents includes cash on hand and at bank, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

### Note 5: Cash flow information

| | 2017<br>$ |
|---|---|
| **(a) Reconciliation of cash flow from operations with loss after income tax** | |
| Loss after income tax | (1,965,250) |
| Non-cash flows in profit/(loss): | |
| • Depreciation and amortisation | 864,061 |
| • Bad and doubtful debts | 487,325 |
| • Net loss on disposal of property, plant and equipment | 149,746 |
| • Net gain on acquisition of subsidiary | (18,104) |
| • Fair value of convertible notes | 4,102,384 |
| • Share based payments expense | 955 |
| Changes in assets and liabilities: | |
| • Change in trade and other receivables | (1,696,065) |
| • Change in deferred tax assets | 1,512,682 |
| • Change in other assets | 672,674 |
| • Change in trade and other payables | (1,530,637) |
| • Change in income taxes payable | 234,874 |
| • Change in deferred taxes payable | (1,512,037) |
| • Change in employee benefits | 196,225 |
| **Net cash provided by operating activities** | **1,498,833** |

**(b) Non-cash financing and investing activities**

Acquisitions of plant and equipment through finance leases of $103,105 occurred during the period.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 6: Acquisition of subsidiaries

#### *AWX Pty Ltd*

On the 18 October 2016, 100% of the shares in AWX Pty Ltd were acquired. Details of the acquisition and the fair values of the assets and liabilities acquired are as follows:

| | 18 October 2016 |
|---|---|
| **Purchase consideration** | **$** |
| Cash consideration | 16,639,570 |
| Contingent consideration | 1,750,000 |
| **Total consideration** | **18,389,570** |
| | |
| **Assets and liabilities acquired:** | |
| Cash and cash equivalents | 1,889,158 |
| Trade and other receivables | 18,182,476 |
| Other current assets | 1,065,774 |
| Property, plant and equipment | 714,261 |
| Intangible assets | 20,145 |
| Deferred tax assets | 1,151,856 |
| Deferred tax liabilities | (828,230) |
| Trade and other payables | (10,549,054) |
| Employee entitlements | (579,704) |
| Current tax liabilities | (731,902) |
| Financial liabilities | (340,735) |
| **Fair value of assets and liabilities acquired** | 9,994,045 |
| | |
| **Identifiable assets acquired** | |
| Brand names | 1,249,500 |
| Customer relationships | 2,330,293 |
| **Total identifiable assets acquired and liabilities assumed** | **13,573,838** |
| | |
| **Goodwill on acquisition** | **4,815,732** |
| | |
| **Cashflows on acquisition** | |
| Cash consideration | (16,639,570) |
| Cash acquired | 1,889,158 |
| Working capital adjustment refundable at 30 June 2017 | (194,493) |
| **Total cashflows on acquisition to 30 June 2017** | **(14,944,905)** |

# Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

## Note 6: Acquisition of subsidiaries (cont.)

### *The Recruitment Company*

On the 1 April 2017, 100% of the shares in The Recruitment Company were acquired. Details of the acquisition and the fair values of the assets and liabilities acquired are as follows:

| | 1 April 2017<br>$ |
|---|---|
| **Purchase consideration** | |
| Cash consideration | 1 |
| **Total consideration** | **1** |
| | |
| **Assets and liabilities acquired:** | |
| Cash and cash equivalents | 119,720 |
| Trade and other receivables | 234,403 |
| Property, plant and equipment | 1,374 |
| Trade and other payables | (312,769) |
| Employee entitlements | (24,623) |
| **Fair value of assets and liabilities acquired** | **18,105** |
| | |
| Gain on acquisition | 18,104 |
| | |
| **Cashflows on acquisition** | |
| Cash consideration | (1) |
| Cash acquired | 119,720 |
| **Total cashflows on acquisition to 30 June 2017** | **119,719** |

### *Edmen Holdings Pty Ltd*

On the 4 April 2017, 100% of the shares in Edmen Holdings Pty Ltd were acquired. Details of the acquisition and the fair values of the assets and liabilities acquired are as follows:

| | 4 April 2017<br>$ |
|---|---|
| **Purchase consideration** | |
| Cash consideration | 30,065,965 |
| **Total consideration** | **30,065,965** |
| | |
| **Assets and liabilities acquired:** | |
| Cash and cash equivalents | 1,132,492 |
| Trade and other receivables | 4,560,587 |
| Other current assets | 155,376 |
| Current tax receivable | 25,912 |
| Property, plant and equipment | 926,098 |
| Goodwill | 1,008,722 |
| Intangible assets | 477,785 |
| Deferred tax assets | 360,826 |
| Deferred tax liabilities | (934,063) |
| Trade and other payables | (1,959,125) |
| Employee entitlements | (800,194) |
| Financial liabilities | (249,870) |
| **Fair value of assets and liabilities acquired** | 4,704,547 |

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 6: Acquisition of subsidiaries (cont.)

*Edmen Holdings Pty Ltd (cont.)*

| | **4 April 2017** |
|---|---|
| **Identifiable assets acquired** | **$** |
| Brand names | 996,450 |
| Customer relationships | 3,113,542 |
| **Total identifiable assets acquired and liabilities assumed** | **8,814,539** |
| | |
| **Goodwill on acquisition** | **21,251,426** |
| | |
| **Cashflows on acquisition** | |
| Cash consideration | (30,065,965) |
| Cash acquired | 1,132,492 |
| **Total cashflows on acquisition to 30 June 2017** | **(28,933,473)** |

*Summary of acquisitions*

| | **2017** |
|---|---|
| | **$** |
| **Cash paid for subsidiaries acquired (net of cash acquired)** | |
| AWX Pty Ltd | (14,944,905) |
| The Recruitment Company | 119,720 |
| Edmen Holdings Pty Ltd | (28,933,473) |
| **Total cash paid for subsidiaries acquired (net of cash acquired)** | **(43,758,658)** |
| | |
| **Goodwill** | |
| AWX Pty Ltd | 4,815,732 |
| Edmen Holdings Pty Ltd – on consolidation | 21,251,426 |
| Edmen Holdings Pty Ltd – acquired | 1,008,722 |
| **Total goodwill** | **27,075,880** |

*Recognition and measurement*

The acquisition method of accounting is used to account for all business combinations. Consideration is measured at the fair value of the assets transferred, liabilities incurred and equity interests issued by the group on acquisition date. Consideration also includes the acquisition date fair values of any contingent consideration arrangements, any pre-existing equity interests in the acquiree and share- based payment awards of the acquiree that are required to be replaced in a business combination. The acquisition date is the date on which the group obtains control of the acquiree. Where equity instruments are issued as part of the consideration, the value of the equity instruments is their published market price at the acquisition date unless, in rare circumstances it can be demonstrated that the published price at acquisition date is not fair value and that other evidence and valuation methods provide a more reliable measure of fair value.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are, with limited exceptions, initially measured at their fair values at acquisition date. Goodwill represents the excess of the consideration transferred and the amount of the non-controlling interest in the acquiree over fair value of the identifiable net assets acquired. If the consideration and non-controlling interest of the acquiree is less than the fair value of the net identifiable assets acquired, the difference is recognised in profit or loss as a bargain purchase price, but only after a reassessment of the identification and measurement of the net assets acquired.

Acquisition-related costs are expensed when incurred. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 6: Acquisition of subsidiaries (cont.)

#### *Recognition and measurement (cont.)*

Where the group obtains control of a subsidiary that was previously accounted for as an equity accounted investment in associate or jointly controlled entity, the group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and the resulting gain or loss is recognised in profit or loss. Where the group obtains control of a subsidiary that was previously accounted for as an available-for-sale investment, any balance on the available-for-sale reserve related to that investment is recognised in profit or loss as if the group had disposed directly of the previously held interest.

Where settlement of any part of the cash consideration is deferred, the amounts payable in future are discounted to present value at the date of exchange using the entity's incremental borrowing rate as the discount rate.

Contingent Consideration is classified as equity or financial liabilities. Amounts classified as financial liabilities are subsequently remeasured to fair value at the end of each reporting period, with changes in fair value recognised in profit or loss.

Assets and liabilities from business combinations involving entities or businesses under common control are accounted for at the carrying amounts recognised in the group's controlling shareholder's consolidated financial statements.

#### *Key judgements and estimations*

Management uses valuation techniques in determining the fair values of the various elements of a business combination. Particularly, the fair value of contingent consideration is dependent on the outcome of many variables that affect future profitability (see Note 11).

### Note 7: Interests in subsidiaries

The subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the group. The proportion of ownership interests held equals the voting rights held by group.

| Name of Subsidiary | Country of Incorporation | Ownership interest held by the group 2017 |
|---|---|---|
| E AWX Holdco Pty Ltd | Australia | 100% |
| E Hco Two Pty Ltd | Australia | 100% |
| AWX Hco Two Pty Ltd | Australia | 100% |
| AWX Constructions & Industrial Pty Ltd | Australia | 100% |
| AWX Labour Hire Pty Ltd | Australia | 100% |
| AWX Labour Pty Ltd | Australia | 100% |
| First People Group Pty Ltd | Australia | 100% |
| Mobilise Group Pty Ltd | Australia | 100% |
| Tribe Workforce Solutions Pty Ltd | Australia | 100% |
| Timberwolf Planting Pty Ltd | Australia | 100% |
| The Recruitment Company | New Zealand | 100% |
| Edmen Recruitment Pty Limited | Australia | 100% |
| Edmen Community Staffing Solutions Pty Limited | Australia | 100% |
| DMW Recruitment Group Pty Limited | Australia | 100% |
| Expect A Star Services Pty Ltd | Australia | 100% |
| Edmen Pty Limited | Australia | 100% |
| Edmen Community Staffing Solutions NSW Pty Limited | Australia | 100% |
| Expect Pty Limited | Australia | 100% |

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 7: Interests in subsidiaries (cont.)

| Name of Subsidiary | Country of Incorporation | Ownership interest held by the Consolidated Entity |
|---|---|---|
| Edmen Workforce Pty Limited | Australia | 100% |
| Expect A Star Staffing Services Pty Ltd | Australia | 100% |
| Disability Care Australia Servcies Pty Ltd | Australia | 100% |
| Edmen Workforce Services Pty Limited | Australia | 100% |
| Edmen Community Staffing Solutions Services Pty Ltd | Australia | 100% |
| Edmen Workforce Staffing Services Pty Limited | Australia | 100% |

### Note 8: Trade and other receivables

| **Current** | **2017**<br>**$** |
|---|---|
| Trade receivables | 20,605,149 |
| Allowance for impairment of receivables | (220,184) |
| | 20,384,965 |
| Accrued revenue | 3,768,051 |
| Other debtors | 339,227 |
| | **24,492,243** |

#### *Recognition and measurement*

Trade receivables are recognised at original invoice amounts less an allowance for uncollectible amounts and have repayment terms between 7 and 90 days. Collectability of trade receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence that the group will not be able to collect all amounts due according to the original terms. Objective evidence of impairment includes financial difficulties of the debtor and default payments. On confirmation that the trade receivable will not be collectible the gross carrying value of the asset is written off against the associated provision.

From time to time, the group elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and are not, in the view of the Directors, sufficient to require the de-recognition of the original instrument.

#### *Movement in provision for impairment*

| | **2017**<br>**$** |
|---|---|
| Opening balance | - |
| Balance at acquisition | (1,495,482) |
| Charge for the year | (487,325) |
| Amounts written off | 1,762,623 |
| Closing balance | **(220,184)** |

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 9: Property, plant and equipment

| | 2017<br>$ |
|---|---|
| **Property improvements** | |
| At cost | 586,520 |
| Accumulated depreciation | (219,165) |
| **Total property improvements** | **367,355** |
| **Vehicles** | |
| At cost | 655,682 |
| Accumulated depreciation | (406,981) |
| **Total vehicles** | **248,701** |
| **Plant and equipment** | |
| At cost | 296,439 |
| Accumulated depreciation | (218,945) |
| **Total plant and equipment** | **77,494** |
| **Office furniture and equipment** | |
| At cost | 2,263,314 |
| Accumulated depreciation | (1,348,117) |
| **Total office furniture and equipment** | **915,197** |
| **Leased plant and equipment** | |
| At cost | 459,743 |
| Accumulated depreciation | (205,351) |
| **Total leased plant and equipment** | **254,392** |
| **Total property, plant and equipment** | **1,863,139** |

### *Recognition and measurement*

Property, plant and equipment are measured on the cost basis less depreciation and impairment losses. The cost of fixed assets constructed within the group includes the cost of materials, direct labour, borrowing costs and an appropriate portion of fixed and variable costs.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

### *Movements in carrying amount*

| 2017 | Property Improvement<br>$ | Vehicles<br>$ | Plant and equipment<br>$ | Office equipment<br>$ | Leased equipment<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|
| Balance at the beginning of the year | - | - | - | - | - | - |
| Additions – through business combinations | 391,297 | 108,551 | 80,054 | 881,235 | 179,223 | 1,640,360 |
| Additions – through ordinary course | 119,881 | 203,668 | 28,993 | 299,304 | 97,462 | 749,308 |
| Disposals | (123,677) | - | (1,333) | (25,082) | - | (150,092) |
| Depreciation expense | (20,146) | (63,518) | (30,220) | (240,260) | (22,293) | (376,437) |
| **Carrying amount at the end of the year** | **367,355** | **248,701** | **77,494** | **915,197** | **254,392** | **1,863,139** |

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 9: Property, plant and equipment (cont.)

#### *Depreciation*

The depreciable amount of all fixed assets, is depreciated on either a straight-line or diminishing value basis over their useful lives to the group commencing from the time the asset is held ready for use. Leased assets and leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the assets.

The depreciation rates used for each class of depreciable assets are:

| | |
|---|---|
| Property improvements | 5 – 40 years |
| Vehicles | 5 – 8 years |
| Plant and equipment | 5 – 20 years |
| Office furniture and fittings | 3 – 17 years |
| Lease plant and equipment | 5 – 8 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in profit or loss.

#### *Impairment*

At the end of each reporting period the group assesses whether there is any indication that property, plant and equipment assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset’s carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate recoverable amount for an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

#### *Key judgements*

Management reviews the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets to the group. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 10: Intangible assets

| | 2017 |
|---|---|
| | $ |
| **Goodwill – at cost** | **27,075,880** |
| **Brand names – at cost** | **2,245,950** |
| **Customer relationships** | |
| Cost | 5,648,835 |
| Accumulated amortisation | (559,110) |
| **Total customer relationships** | **5,089,725** |
| **Mobile application software** | |
| Cost | 339,531 |
| Accumulated amortisation | (11,223) |
| **Total mobile application software** | **328,308** |
| **Website** | |
| Cost | 21,169 |
| Accumulated amortisation | (4,019) |
| **Total website** | **17,150** |
| **Patents and trademarks** | |
| Cost | 28,333 |
| Accumulated amortisation | (8,343) |
| | **19,990** |
| | |
| **Total intangible assets** | **34,777,003** |

### *Goodwill*

Goodwill represents the future economic benefits arising from a business combination that are note individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses. Goodwill represents the two acquisitions which occurred during the reporting period. These entities have generated profits and operating cash inflows. Further, future cashflows of these entities are positive. Therefore, no impairment indicators exist for the goodwill.

### *Other intangible assets*

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of acquisition. Intangible assets acquired separately are initially recognised at cost. Intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from derecognition of an intangible asset is measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangibles are reviewed annually. Changes in expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Customer relationships are amortised straight line over their expected future lives. The estimated useful lives of customer relations are 5.5 years.

Mobile Application Software has been classified as an intangible asset with a finite life. It is amortised on a straight-line basis over the expected useful life of the software. The life is 5 years.

### *Impairment of assets*

At the end of each reporting period the group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 10: Intangible assets (cont.)

#### *Impairment of assets (cont.)*

Where it is not possible to estimate recoverable amount for an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

#### *Movements in carrying amount*

| 2017 | Goodwill | Brand names | Customer relationships | Mobile application software | Website | Patents and trademarks | Total |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| Balance at the beginning of the year | - | - | - | - | - | - | - |
| Additions – through business combinations | 27,075,880 | 2,245,950 | 5,565,381 | 338,343 | 17,896 | 20,145 | 35,263,595 |
| Additions – through ordinary course | - | - | - | 1,187 | - | - | 1,187 |
| Disposals | - | - | - | - | - | (155) | (155) |
| Amortisation expense | - | - | (475,656) | (11,222) | (746) | - | (487,624) |
| **Carrying amount at the end of the year** | **27,075,880** | **2,245,950** | **5,089,725** | **328,308** | **17,150** | **19,990** | **34,777,003** |

### Note 11: Trade and other payables

| | 2017 |
|---|---|
| | $ |
| **Current** | |
| Trade payables | 4,662,738 |
| Accrued expenses | 4,690,392 |
| GST payable | 1,713,711 |
| Other payables | 223,470 |
| Deferred consideration | 1,750,000 |
| | **13,040,311** |

#### *Deferred consideration*

During the business combination of AWX Pty Ltd, AASB 3 Business Combination required the recognition of contingent consideration. The contingent consideration relates to amounts payable under the purchase contract should certain conditions be met. The conditions surround the EBITDA of the acquired AWX Group for the 12 months following the acquisition. Note 6 provides details of this acquisition and the total consideration paid for the acquisition.

Under accounting standards, the deferred consideration is to be measured at fair value as outlined in AASB 13 Fair Value Measurement. The amount is payable in February 2018 and therefore it was determined that the carrying value and the fair value are the same.

#### *Recognition and measurement*

Trade and other payables represent liabilities for goods and services provided to the group prior to the year end and which are unpaid. These amounts are unsecured and have 7 to 30-day payment terms. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. No assets of the group have been pledged as security for the trade and other payables.

After initial recognition, loans and borrowings are subsequently recognised at amortised cost.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 12: Financial liabilities

| | 2017<br>$ |
|---|---|
| *Current* | |
| Credit cards | 37,282 |
| Debtor finance account | 6,763,715 |
| Commercial bills | 3,044,000 |
| Premium funding | 451,843 |
| Lease liabilities | 90,137 |
| Convertible notes | 15,122,384 |
| **Total current borrowings** | **25,509,361** |
| | |
| *Non-current* | |
| Shareholder loans | 7,200,000 |
| Commercial bills | 19,711,000 |
| Lease liabilities | 245,266 |
| **Total non-current borrowings** | **27,156,266** |
| | |
| **Total borrowings** | **52,665,627** |

#### *Recognition and measurement*

Borrowings are initially recognised at fair value, net of any transactions costs incurred.

#### *Facilities*

| | Available facility | Facility used | Remaining Facility |
|---|---|---|---|
| Credit cards | 60,000 | 37,282 | 22,718 |
| Debtor finance / invoice discounting facility | 12,500,000 | 6,763,715 | 5,736,285 |
| Commercial bills | 23,060,000 | 22,755,000 | 305,000 |
| | **35,620,000** | **29,555,997** | **6,064,003** |

#### *Security*

St George Bank provided the above facilities and as a result has the following security:

- first registered general security over the assets and undertaking of the group; and
- guarantees from shareholders.

#### *Covenants*

The following covenants have been imposed by St George Bank:

- Interest Cover Ratio – not less than 3.0 times;
- Financial Debt/EBITDA Ratio – less than 3x from 30 June 2018

#### *Key judgements and estimations – Fair value of financial instruments – convertible notes*

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 13: Employee benefits

| | 2017 |
|---|---|
| | $ |
| **Current** | |
| Annual leave | 1,097,958 |
| Long services leave | 249,541 |
| Other leave | 28,690 |
| | **1,376,189** |
| **Non-current** | |
| Long service leave | 224,558 |
| | **224,558** |

### *Recognition and measurement*

*Short-term employee benefits*

Provision is made for the group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

*Other long-term employee benefits*

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on Corporate bonds that have maturity dates that approximate the terms of the obligations. Upon the remeasurement of obligations for other long-term employee benefits, the net change in the obligation is recognised in profit or loss as part of employee benefits expense.

The group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 14: Share capital

| | 2017<br>$ |
|---|---|
| 10 fully paid ordinary shares | 10 |

Ordinary shares participate in dividends and the proceeds on winding up of People Infrastructure Ltd in proportion to the number of shares held. At shareholders meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Ordinary shares have no par value and People Infrastructure Ltd does not have a limited amount of authorised capital.

### *Ordinary Shares*

| | 2017<br>$ |
|---|---|
| At the beginning of the period | - |
| Issue of new ordinary shares – 5 October 2016 | 10 |
| **At reporting date** | **10** |

### *Options and rights*

Unissued ordinary shares of People Infrastructure Ltd under option at the end of the reporting period are:

| Date options granted | Expiry date | Exercise price of shares | Number under option |
|---|---|---|---|
| 17 January 2017 | 14 November 2020 | $4.16 | 108,000 |
| 17 January 2017 | 14 November 2021 | $4.16 | 108,000 |
| **Total under option** | | | **216,000** |

The options have vesting conditions attached to them and expire 30 days after the exercise date. These options were issued during the period to key management personnel as part of the People Infrastructure Ltd's Employee Share Option Scheme.

During the reporting period, no options held by employees of the group expired due to expiration of the options and no options were forfeited.

### *Capital management*

The capital of the group is managed to provide capital growth to shareholders and ensure the group can fund its operations and continue as a going concern.

The group's capital comprises equity as shown in the Consolidated Statement of Financial Position. There are no externally imposed capital requirements.

Management manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and the market. These responses include the management of share issues and debt.

There have been no changes in the strategy adopted by management to control the capital of the group during the reporting period.

### *Recognition and measurement*

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 15: Share-based payments

The following share based payment arrangements existed at 30 June 2017.

#### *Share-based payments to Directors, executives and employees*

**Shares**

During the period ended 30 June 2017, no shares were granted to KMP as share- based payments.

**Options**

During the period ended 30 June 2017, the following movements in options granted to KMP as share- based payments occurred.

| | 2017 | |
|---|---|---|
| | **Options** | **Weighted average exercise price** |
| | **No.** | **$** |
| Outstanding at beginning of the period | - | - |
| Granted | 216,000 | 4.16 |
| Outstanding at year-end | 216,000 | 4.16 |
| Exercisable at year-end | - | - |

During the period ended no options are exercisable at year end as there are conditions attached which are not yet satisfied.

The following principal assumptions were used in the valuation:

| | **Tranche 1** | **Tranche 2** |
|---|---|---|
| Grant date | 17 January 2017 | 17 January 2017 |
| Number of options | 108,000 | 108,000 |
| Vesting period end | 50% 14 October 2020<br>50% 14 October 2021 | 50% 14 October 2020<br>50% 14 October 2021 |
| Share price at grant date | $1.00 | $1.00 |
| Volatility | 50% | 50% |
| Option life | 350% 3.74 years<br>50% 4.74 years | 50% 3.74 years<br>50% 4.74 years |
| Dividend yield | Continuous | Continuous |
| Fair value at grant date | 50% $0.065<br>50% $0.1042 | 50% $0.065<br>50% $0.1042 |
| Exercise price at grant date | $4.16 | $4.16 |
| Exercisable from | 50% 14 October 2020<br>50% 14 October 2021 | 50% 14 October 2020<br>50% 14 October 2021 |
| Exercisable to | 30 days after the exercise date | 30 days after the exercise date |
| Conditions | 2019 FY EBITDA is at least $8.5m for the AWX Group | 2019 FY EBITDA is at least $13m for the People Infrastructure Group |

During the period ending 30 June 2017, no options were exercised.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 15: Share-based payments (cont.)

**Share based payment expense**

The amount included in profit or loss is as follows:

| | 2017 |
|---|---|
| | $ |
| Employee benefits expense | (955) |

These amounts have been recognised in equity in the Consolidated Statement of Financial Position as follows:

| | 2017 |
|---|---|
| | $ |
| Share capital | - |
| Share based payment reserve | 955 |

### *Recognition and measurement*

The group operates equity-settled share-based remuneration plans for its employees. None of the group's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are allocated to share capital.

### *Key estimates – share-based payments*

The group uses estimates to determine the fair value of equity instruments issued to Directors, executives and employees. The estimates include volatility, risk free rates and consideration of satisfaction of performance criteria for recipients of equity instruments. Options were issued as outlined above and the cost of these rights represents the valuation and the accounting impact of prior issuances and determinations remains unchanged.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 16: Financial assets and liabilities

#### *Recognition, initial measurement and derecognition*

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

#### *Classification and subsequent measurement of financial assets*

For the purpose of subsequent measurement, financial assets are classified into loans and receivables upon initial recognition. No other categories of financial assets are currently held.

All financial assets except for those at fair value through profit or loss (FVTPL) are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The group's trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

#### *Classification and subsequent measurement of financial liabilities*

The group's financial liabilities include borrowings and trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities designated at fair value through profit or loss (FVTPL), that are carried subsequently at fair value with gains or losses recognised in profit or loss.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 16: Financial assets and liabilities (cont.)

*Categories of financial assets and liabilities*

| | 2017<br>$ |
|---|---|
| **Financial assets at amortised cost** | |
| Cash and cash equivalents | 4,852,185 |
| Trade and other receivables | 24,492,243 |
| **Total financial assets** | **29,344,428** |
| | |
| **Financial liabilities at amortised cost** | |
| Trade and other payables | 11,290,311 |
| Credit cards | 37,282 |
| Debtor finance accounts | 6,763,715 |
| Commercial bills | 22,755,000 |
| Shareholder loans | 7,200,000 |
| Premium funding | 451,843 |
| Lease liabilities | 335,403 |
| | 48,833,554 |
| | |
| **Financial liabilities at fair value through the profit and loss** | |
| Deferred consideration | 1,750,000 |
| Convertible notes | 15,122,384 |
| | 17,595,778 |
| | |
| **Total financial liabilities** | **66,429,332** |

*Borrowings at amortised cost*

The current interest rate on the commercial bill range from 4.97% to 5.65% at 30 June 2017. These bills rollover on a 3-monthly basis. They are fully repayable within 3 years of the original drawdown date being March 2020. They are held with St George Bank. Refer to Note 12 for further details around security provided.

The Shareholder loans have a term of 10 years and no interest is payable on the loan. The shareholder loans have been provided by 6 different parties.

For details on the repayment periods and interest rates for lease liabilities refer to Note 20.

*Borrowings at fair value through the profit and loss*

Deferred consideration is payable on completion of the audited results of the AWX Group for the year ended 30 June 2017. It is contingent on the EBITDA of this group reaching stipulated amounts. The probability of the AWX group achieving the maximum EBITDA and therefore it is considered highly probably that the earn out will be payable.

*Other financial instruments*

The carrying amount of the following financial assets and liabilities is considered a reasonable approximation of fair value:

- trade and other receivables
- cash and cash equivalents
- trade and other payables
- credit cards
- debtor finance accounts

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 17: Financial risk management

#### *(a) General objectives, policies and processes*

In common with all other businesses, the group is exposed to risks that arise from its use of financial instruments. This note describes the group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements

The group's financial instruments consist mainly of deposits with banks, trade and other receivables, trade and other payables and borrowings.

The Board has overall responsibility for the determination of the group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the group's finance function. The group's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the group where such impacts may be material.

The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the group's competitiveness and flexibility. Further details regarding these policies are set out below:

#### *(b) Credit risk*

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the group incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the group. The group's objective is to minimise the risk of loss from credit risk exposure.

The group's maximum exposure to credit risk at the end of the reporting period, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset at reporting date, is as follows:

| | **2017** |
|---|---|
| | **$** |
| Cash and cash equivalents | 4,852,185 |
| Trade and other receivables | 24,712,427 |
| | **29,564,612** |

Credit risk is reviewed regularly by the Board through the monthly board reporting.

Bank deposits are held with the following parties:

| | **2017** |
|---|---|
| | **$** |
| St George Bank | 2,932,824 |
| Australian and New Zealand Banking Group Limited | 1,684,708 |
| National Australia Bank Limited | 178,229 |
| Westpac Banking Corporation | 55,962 |
| Cash on hand | 462 |
| | **4,852,185** |

In respect of trade and other receivables, the group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates management consider the credit quality of trade receivables that are not past due or impaired to be good.

The carrying amount of receivables whose terms have been renegotiated, that would otherwise be past due or impaired is nil.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 17: Financial risk management (cont.)

#### *(b) Credit risk (cont.)*

Some of the trade receivables are past due as at the reporting date. Information on financial assets past due are as follows:

| | 2017<br>$ |
|---|---|
| Not more than 3 months | 23,517,573 |
| More than 3 months but not more than 6 months | 753,150 |
| More than 6 months but not more than 1 year | 441,702 |
| More than 1 year | - |
| | **24,712,425** |

#### *(c) Liquidity risk*

Liquidity risk is the risk that the group may encounter difficulties raising funds to meet financial obligations as they fall due. The object of managing liquidity risk is to ensure, as far as possible, that the group will always have sufficient liquidity to meets its liabilities when they fall due, under both normal and stressed conditions. Liquidity risk is reviewed regularly by the Board.

The group manages liquidity risk by monitoring forecast cash flows and liquidity ratios such as working capital. The group's working capital, being current assets less current liabilities is in a deficiency position at 30 June 2017 ($9,949,802).

As outlined in the Key Judgements section (page 11), the ability for the group to deliver on its strategic and operational objectives is dependent upon the continued support of debt providers until the eminent listing in November 2017. Subsequent to the end of the financial reporting period a portion of the convertible notes were renegotiated to extend their repayment period to FY 2019 in the event an IPO does not proceed.

#### *Maturity analysis – Financial liabilities*

| Consolidated | Carrying Amount | Contractual Cash flows | <6 months | 6 – 12 months | 1 – 3 years | >3 years |
|---|---|---|---|---|---|---|
| **2017** | **$** | **$** | **$** | **$** | **$** | **$** |
| Trade and other payables | 11,290,311 | 11,290,311 | 11,290,311 | - | - | - |
| Credit cards | 37,282 | 37,282 | 37,282 | - | - | - |
| Deferred consideration | 1,750,000 | 1,750,000 | - | 1,750,000 | - | - |
| Debtor finance accounts | 6,763,715 | 6,763,715 | 6,763,715 | - | - | - |
| Commercial bills | 22,755,000 | 26,706,924 | 2,177,443 | 2,131,314 | 22,398,167 | - |
| Convertible notes | 15,122,384 | 15,122,384 | - | 15,122,384 | - | - |
| Shareholder loans | 7,200,000 | 7,200,000 | 7,200,000 | - | - | - |
| Premium funding | 451,843 | 451,843 | 451,843 | - | - | - |
| Lease liabilities | 335,403 | 368,658 | 51,455 | 51,455 | 205,819 | 59,929 |

Further information regarding commitments is included in Note 20.

#### *(d) Currency risk*

The Australian dollar (AUD) is the functional currency of the group and as a result currency exposure arising from the transactions and balances in currencies other than the AUD.

The group's potential currency exposures comprise:

The Recruitment Company is a subsidiary based in New Zealand. Therefore, this company's functional currency is New Zealand Dollars (NZD). The results for the company are converted to AUD for consolidation and reporting purposes. Given the entity is very small part of the operations of the group as a whole this exposure is very minor.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 17: Financial risk management (cont.)

#### *(e) Market risk*

Market risk arises from the use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk). The Group does not have any material exposure to market risk other than as set out below.

**Interest rate risk**

Interest rate risk arises principally from cash and cash equivalents. The objective of interest rate risk management is to manage and control interest rate risk exposures within acceptable parameters while optimising the return.

Interest rate risk is managed with a mixture of fixed and floating rate investments. For further details on interest rate risk refer to the tables below:

| | Floating interest rate | Fixed interest rate | Non-interest bearing | Total carrying amount | Weighted average effective interest rate |
|---|---|---|---|---|---|
| | 2017 | 2017 | 2017 | 2017 | 2017 |
| | $ | $ | $ | $ | % |
| *Financial assets* | | | | | |
| Cash and cash equivalents | 4,852,185 | 4,852,185 | - | 4,852,185 | 0.08% |
| Trade and other receivables | 24,492,243 | - | 24,492,243 | 24,492,243 | n/a |
| **Total financial assets** | **29,344,428** | **4,852,185** | **24,492,243** | **29,344,428** | |
| *Financial liabilities* | | | | | |
| Trade and other payables | - | - | 11,290,311 | 11,290,311 | n/a |
| Credit cards | - | 37,282 | - | 37,282 | 5.18% |
| Deferred consideration | - | 1,750,000 | - | 1,750,000 | n/a |
| Debtor finance accounts | - | 6,763,715 | - | 6,763,715 | 5.51% |
| Commercial bills | - | 22,755,000 | - | 22,755,000 | 1.52% |
| Convertible notes | - | 15,122,384 | - | 15,122,384 | Nil |
| Shareholder loans | - | 7,200,000 | - | 7,200,000 | Nil |
| Premium funding | - | 451,843 | - | 451,843 | 1.62% |
| Lease liabilities | - | 335,403 | - | 335,403 | 1.13% |
| **Total financial liabilities** | **-** | **54,415,627** | **11,290,311** | **65,705,938** | |

The group has performed a sensitivity analysis relating to its exposure to interest rate risk. This sensitivity demonstrates the effect on the current year results and equity which could result from a change in these risks. Given the majority of the exposure is fixed rate the impact of changing in interest rates has been assessed as minimal.

#### *Foreign Exchange Risk*

Foreign exchange risk (FX risk) arises principally from cash and cash equivalents. The objective of FX risk management is to manage and control FX risk exposures within acceptable parameters while optimising the return.

The company has cash and cash equivalents in NZD. The balance at the 30 June 2017 was NZD 364,494. Due to the small amount of exposure the impact on profit has not been disclosed.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 18: Fair value measurement

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The Group has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The carrying value of a significant portion of all financial assets and financial liabilities approximate their fair values due to their short-term nature.

The entity completed level 3 valuations on contingent consideration, which is outlined in Note 11: Financial liabilities.

**Financial Liabilities at fair value through the profit and loss**

| | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| Contingent consideration | - | - | 1,750,000 |
| Convertible notes | - | - | 15,122,384 |
| **Total Financial Liabilities** | **-** | **-** | **16,872,384** |

There were no other financial assets or liabilities valued at fair value at 30 June 2017.

#### *Contingent consideration*

The fair value of contingent consideration related to the acquisition of AXW Pty Ltd and controlled entities (see Note 6) is estimated using a present value technique. The value is estimated by probability-weighting the estimated future cash outflows, adjusting for risk and discounting. The probability was assessed as highly likely that the contract's target level will be achieved. Given the short term of the outstanding payment the discounting had no impact on the value.

#### *Convertible notes*

The convertible notes have a face value of $10,120,000 which carry an interest rate of 10% per annum and $900,000 which carry an interest rate of 15% per annum. The fair value of the notes has been estimated using a present value technique. The value is estimated by probability-weighting the estimated future cash outflows, adjusting for risk and discounting. The probability was assessed as highly likely that the conditions for conversion will be achieved. The movement in the fair value was expensed to the profit and loss.

### Note 19: Events arising since the end of the reporting period

On the 15 July 2017, the company changed from a proprietary limited company to an unlisted public company.

In August 2017, 1,900,000 of the convertible notes were renegotiated to extend the repayment to October 2018. Given these renegotiations have occurred subsequent to the end of the reporting period they have remained as a current liability as at 30 June 2017.

The group is working towards listing on the ASX in the coming months and plans to do so prior to December 2017.

No other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the group, the results of those operations, or the state of affairs of the group in future financial periods.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 20: Commitments

#### *(a) Finance leases*

The commitments to be undertaken are as follows:

| | 2017 $ |
|---|---|
| Payable – minimum lease payments: | |
| - not later than 12 months | 105,905 |
| - between 12 months and 5 years | 262,753 |
| - greater than 5 years | - |
| Minimum lease payments | 368,658 |
| Less future finance charges | (33,255) |
| Present value of minimum lease payments | 335,403 |

Finance leases are on motor vehicles and computer equipment. The leases range from 3 to 5 years and have an interest rate of 4.78% to 8.78%. The lease payments are paid monthly with some of the leases containing balloon payments at the end of the lease.

#### *(b) Operating leases*

The commitments to be undertaken are as follows:

| | 2017 $ |
|---|---|
| Payable | |
| - not later than 12 months | 759,323 |
| - between 12 months and 5 years | 662,356 |
| - greater than 5 years | 686,640 |
| | 2,108,319 |

Property leases are non-cancellable leases with terms ranging from 2 to 10 years. Some contain options to renew and include annual review of rentals.

#### *Recognition and measurement*

**Finance leases**

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards of ownership of the leased asset. Where the group is a lessee in this type of arrangement, the related asset is recognised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance lease liability. Leases of land and buildings are classified separately and are split into a land and a building element, in accordance with the relative fair values of the leasehold interests at the date the asset is recognised initially.

See Note 9 for the depreciation methods and useful lives for assets held under finance lease. The corresponding finance lease liability is reduced by lease payments net of finance charges. The interest element of lease payments represents a constant proportion of the outstanding capital balance and is charged to profit or loss, as finance costs over the period of the lease.

**Operating leases**

All other leases are treated as operating leases. Where the group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 21: Contingent assets and contingent liabilities

The group has no contingent assets and no contingent liabilities.

### Note 22: Auditor's Remuneration

| | 2017 $ |
|---|---|
| **Audit services** | |
| Amounts paid/payable to BDO for audit or review of the financial statements for the entity or any entity in the group | 127,000 |
| **Non-audit services** | |
| Amounts paid/payable to BDO or related entities of BDO for non-audit services performed for the entity or any entity in the group as follows: | |
| - Taxation services | 79,792 |
| - Corporate services | 140,480 |
| | **347,272** |

### Note 23: Key Management Personnel

| | |
|---|---|
| Short-term employee benefits (including annual leave accruals) | 421,124 |
| Long-term employee benefits – long service leave | 5,524 |
| Post-employment benefits – superannuation | 39,594 |
| Share-based payments | 955 |
| **Total key management personnel (KMP) compensation** | **467,197** |

### Note 24: Related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

#### *Parent entity and ultimate controlling entity*

The parent entity is People Infrastructure Ltd, which is incorporated in Australia. The ultimate controlling entity is Investco Services Pty Ltd.

#### *Subsidiaries*

Interests in subsidiaries are disclosed in Note 7: Investments in subsidiaries.

#### *Key Management Personnel*

Disclosures relating to KMP are set out in Note 23: Key Management Personnel and Note 15: Share Based Payments expense.

#### *Other related party transactions*

The following related party transactions occurred with entities related to the directors:

| | 2017 $ |
|---|---|
| **Thomas Reardon** | |
| Convertible notes (face value of 500,000) | 823,136 |
| Shareholder loans | 1,000,000 |
| | |
| **Declan Sherman** | |
| Shareholder loans | 870,000 |

There were no other transactions with other related parties during the period.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 25: Parent entity information

The Corporations Act 2001 requirement to prepare parent entity financial statements where consolidated financial statements are prepared has been removed and replaced by the new regulation 2M.3.01 which requires the following limited disclosure in regard to the parent entity (People Infrastructure Ltd). The consolidated financial statements incorporate the assets, liabilities and results of the parent entity in accordance with the group accounting policy. The financial information for the parent entity, People Infrastructure Ltd, has been prepared on the same basis as the consolidated financial statements.

| | 2017 |
|---|---|
| **Statement of financial position** | **$** |
| ASSETS | |
| Current assets | 1,622,115 |
| Non-current assets | 17,910,792 |
| Total assets | 19,532,907 |
| | |
| LIABILITIES | |
| Current liabilities | 15,722,423 |
| Non-current liabilities | 8,468,600 |
| Total liabilities | 24,191,023 |
| | |
| EQUITY | |
| Issued capital | 10 |
| Reserves | 955 |
| Retained earnings/(accumulated losses) | (4,659,081) |
| **Total equity** | **(4,658,116)** |
| | |
| **Statement of profit or loss and other comprehensive income** | |
| Other expenses | (432,211) |
| Finance costs | (260,280) |
| Fair value of convertible notes | (4,102,384) |
| Share based payments expense | (955) |
| **Loss before income tax expense** | **(4,795,830)** |
| Income tax benefit | 136,749 |
| **Loss for the year** | **(4,659,081)** |
| Other comprehensive income | - |
| **Total comprehensive income / (loss)** | **(4,659,081)** |

#### *Guarantees*

Under the terms of the Secured Financing Facility entered in with St George Bank, People Infrastructure Ltd has provided certain guarantees in relation to the arrangements between the Financier and the borrowing entities. These guarantees relate primarily to payment performance.

#### *Contingent liabilities*

The parent entity has no contingent liabilities.

#### *Capital commitments*

The parent entity has no capital commitments.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 26: Other accounting policies

#### *GST*

Revenues, expenses and assets are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Cash flows are included in the consolidated statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### *Equity, reserves and dividend payments*

Share capital represents the fair value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits.

Other components of equity include the following:

- foreign currency translation reserve: comprises foreign currency translation differences arising on the translation of financial statements of the group's foreign entities into Australian Dollars.

- share based payments reserve: records items recognised as expenses on valuation of employee share options.

Retained earnings include all current and prior period retained profits.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a General Meeting prior to the reporting date.

All transactions with owners of the parent are recorded separately within equity.

#### *New and amended standards and interpretations not yet adopted*

New Accounting Standards and Interpretations not yet mandatory or early adopted Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the group for the annual reporting period ended 30 June 2017 (with the exception of AASB 15 Revenue from Contracts with Customers which has been early adopted). The group's assessment of the impact of these new or amended Australian Accounting Standards and Interpretations, most relevant to the group, where assessed are set out below:

#### AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance.

## Notes to the Financial Statements For the period ended 30 June 2017 (cont.)

### Note 26: Other accounting policies (cont.)

*New and amended standards and interpretations not yet adopted (cont.)*

Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The group will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the group.

**AASB 16 Leases**

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. When effective, the Standard will replace current accounting requirements applicable to leases in AASB 117. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. The main changed introduced by the new standard include: recognition of a right-to-use asset and liability for all leases; depreciation of right-to-use assets in line with AASB 116 in profit or loss and unwinding of the liability in principal and interest components; and additional disclosure requirements. The group will adopt this standard from 1 January 2019 but the impact of its adoption is yet to be assessed by the group.

**AASB 15 Revenue from contracts with customers**

This standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The standard is applicable to annual reporting periods beginning on or after 1 January 2019. The group is in the process of assessing the impact of the new standard but does not expect a significant impact as most of the group's revenue will be outside the scope of AASB 15.

*New, revised or amending Accounting Standards and Interpretations adopted*

The group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The adoption of these Australian Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the group, but listed below are the standards applied and any further information required under these standards.

# Directors' Declaration
# For the Period Ended 30 June 2017

1. In the opinion of the Directors of People Infrastructure Ltd (the 'Company'):

   a. The consolidated financial statements and notes of People Infrastructure Ltd are in accordance with the *Corporations Act 2001*, including:

      i. Giving a true and fair view of the financial position as at 30 June 2017 and of its performance for the period ended on that date; and

      ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

   b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The consolidated financial statements comply with International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the Board of Directors.

Declan Sherman

Director

Dated this 4th day of October 2017

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# INDEPENDENT AUDITOR'S REPORT

To the members of People Infrastructure Ltd

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of People Infrastructure Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the 9 month period to 30 June 2017, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of People Infrastructure Ltd, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the 9-month period ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the director's report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the directors for the Financial Report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf

This description forms part of our auditor's report.

**BDO Audit Pty Ltd**

BDO

Tim Kendall

**T J Kendall**
Director

Brisbane, 4 October 2017